

An exempt organization is entitled to only one \$1,000 deduction under section 512(b)(12) of the Code in computing its unrelated business taxable income regardless of the number of unrelated businesses in which it is engaged.

An exempt organization engaged in several unrelated businesses as defined in section 513 of the Internal Revenue Code of 1954 has asked whether section 512(b)(12) of the Code provides a specific deduction of \$1,000 for each such business activity for purposes of computing the organization's unrelated business taxable income under section 512 of the Code.

Section 512 of the Code defines 'unrelated business taxable income' as the gross income derived from any unrelated trade or business regularly carried on less the deductions directly connected with the trade or business, both computed with certain exceptions, additions, and limitations provided in section 512(b). Section 512(b)(12) of the Code provides for the allowance of a specific deduction of \$1,000.

Unrelated business taxable income of an organization that derives gross income from the regular conduct of two or more unrelated business activities is the aggregate of gross income from all such unrelated business activities less the aggregate of the deductions allowed with respect to all such unrelated business activities. See section 1.512(a)-1(a) of the Income Tax Regulations.

The specific \$1,000 deduction now provided by section 512(b)(2) of the Code had its origin in section 421 of the Internal Revenue Code of 1939 which imposed a tax on the unrelated business income of certain exempt organizations. Subsection (c) of that section provided that the term 'supplement U net income' (the figure upon which the tax was applied) was the amount by which an organization's unrelated business net income exceeded \$1,000. According to congressional intent, where an organization carried on two or more unrelated businesses, its 'unrelated business net income' was its gross income from all such businesses, less the deductions allowed with respect to all such businesses. S. Rept. 2375, 81st Cong., 106 (1950), C.B. 1950-2, 483, at 559.

Under section 421(c) of the 1939 Code, an organization clearly was entitled to have its total unrelated income reduced by only \$1,000 regardless of the number of its unrelated businesses. When drafting the 1954 Code, Congress intended no substantive changes from section 421(c) of the 1939 Code. See S. Rept. 1622, 83d Cong., 312 (1954).

Accordingly, the organization is entitled to only one \$1,000 deduction under section 512(b)(12) of the 1954 Code in computing its unrelated business taxable income regardless of the number of

unrelated businesses in which it is engaged.